

# **SANTA CRUZ COUNTY ASSESSMENT PRACTICES SURVEY**

**JUNE 2012**

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## **CALIFORNIA STATE BOARD OF EQUALIZATION**

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June 20, 2012

TO COUNTY ASSESSORS:

No. 2012/024

SANTA CRUZ COUNTY  
ASSESSMENT PRACTICES SURVEY

A copy of the Santa Cruz County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Sean Saldavia, Santa Cruz County Assessor-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Santa Cruz County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from September through October 2010. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Saldavia and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:ps  
Enclosure

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## INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum amount of funding, the State must make up the difference from the general fund.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Santa Cruz County Assessor-Recorder's Office.<sup>1</sup>

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and to the Santa Cruz County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Sean Saldavia, Santa Cruz County Assessor-Recorder, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

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<sup>1</sup> This report covers only the assessment functions of this office.

## **SCOPE OF ASSESSMENT PRACTICES SURVEYS**

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code<sup>2</sup> section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Santa Cruz County Assessor-Recorder's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Santa Cruz County who provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.<sup>3</sup>

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

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<sup>2</sup> Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

<sup>3</sup> All rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

## **EXECUTIVE SUMMARY**

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office.

Many of our recommendations concern portions of programs which are currently effective, but need improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

In the area of administration, the assessor is effectively managing staffing, workload, and staff property and activities. However, we made recommendations for improvements in the appraiser certification, assessment appeals, disaster relief, exemptions, and assessment forms programs.

In the area of real property assessment, the assessor has effective programs for new construction and declines in value. The areas in need of improvement are change in ownership, California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property.

The assessor has effective programs for processing business property statements, as well as valuing business equipment and aircraft. The areas that need improvement are conducting audits, and assessing manufactured homes and vessels.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly.

We found no significant assessment problems as defined in Rule 371. Since Santa Cruz County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Santa Cruz County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Following is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

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## Overview of Santa Cruz County

Santa Cruz County is located at the northern tip of Monterey Bay, 65 miles south of San Francisco, 35 miles north of Monterey, and 35 miles southwest of the Silicon Valley. It is one of California's original 27 counties, created in 1850 by the State Legislature. The county had a population of approximately 256,000 inhabitants as of 2009, with most living in the population centers of Santa Cruz, Watsonville, Scotts Valley, and Capitola. Santa Cruz County encompasses approximately 440 square miles. Major industries are technology, agriculture, and tourism. Santa Cruz County is bordered on the west by the Pacific Ocean, to the east by Santa Clara County, to the north by San Mateo County, and to the south by San Benito and Monterey Counties.

The following table displays information pertinent to the 2010-11 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
<b>Secured Roll</b>	Land	\$17,494,807,958
	Improvements	\$15,584,160,181
	Fixtures and Personal Property	\$185,300,276
	Total Secured	\$33,264,268,415
<b>Unsecured Roll</b>	Land	\$28,162,009
	Improvements	\$287,563,504
	Fixtures and Personal Property	\$547,168,956
	Total Unsecured	\$862,894,469
<b>Exemptions<sup>4</sup></b>		(\$938,067,211)
	<b>Total Assessment Roll</b>	\$33,189,095,673

The next table summarizes the change in assessed values over recent years:<sup>5</sup>

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2010-11	\$33,189,095,000	-0.6%	-1.9%
2009-10	\$33,394,281,000	-3.0%	-2.4%
2008-09	\$34,441,852,000	3.3%	4.7%
2007-08	\$33,341,018,000	7.4%	9.6%
2006-07	\$31,040,974,000	9.4%	12.3%

<sup>4</sup> The value of the Homeowners' Exemption is excluded from the exemptions total.

<sup>5</sup> State Board of Equalization Annual Report, Table 7

## ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, workload, appraiser certification, staff property and activities, assessment appeals, disaster relief, exemptions, and assessment forms.

### ***Budget and Staffing***

To enable the assessor to perform his duties, the county board of supervisors annually funds the assessor's office through the county's general fund. The allotted funds are provided so the assessor can produce a timely assessment roll, administer legally permissible exemptions, develop and maintain a set of current maps delineating property ownership, defend assessments as required before an appellate body, and provide information and services to the public as needed.

The following table shows the assessor's budget and staffing for recent years:

<b>BUDGET YEAR</b>	<b>GROSS BUDGET</b>	<b>CHANGE</b>	<b>PERMANENT STAFF</b>
2010-11	\$3,340,862	-0.3%	33.5
2009-10	\$3,349,576	-2.9%	35.5
2008-09	\$3,450,317	2.0%	38.0
2007-08	\$3,383,002	5.0%	38.0
2006-07	\$3,222,180	N/A	39.0

While the Santa Cruz County Assessor's Office has 33.5 recommended positions in the office, only 26.5 of those positions are actually funded and staffed. Those positions that are funded and staffed include the assessor, the chief deputy assessor-administration, the chief deputy assessor-valuation, the chief of assessment standards, the chief auditor-appraiser, 2 senior appraisers, 7 appraisers, 3 auditor-appraisers, 1 systems analyst, 4 assessment technicians, 3 drafting technicians, 1 senior receptionist, and 1 part-time assessor's aide.

### ***Workload***

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. To accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.

In addition, for most real property, the assessor is annually required to enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has affected the taxable value of the property for that year. In certain economic times, this decline may greatly affect the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

According to the prior two tables, both the roll value and the gross budget have decreased over the last two years. Over the same time period, the assessor's workload has seen a decline in the number of assessable events caused by new construction; however, this decline is offset by a substantial increase in the number of decline-in-value assessments. The number of assessable events caused by changes in ownership has fluctuated over recent years due to changing market conditions.

These trends are shown in the following table:

Workload Description	2009-10	2008-09	2007-08	2006-07	2005-06
Changes in Ownership	4,839	4,859	4,030	4,809	6,244
New Construction	692	1,043	1,597	1,597	1,788
Declines In Value	19,053	5,778	42	42	32

### ***Appraiser Certification***

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless they hold a valid appraiser's certificate issued by the BOE. There are 16 certified appraisers on staff, including the assessor; 14 hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In Santa Cruz County, the chief deputy assessor-valuation is the training coordinator. He oversees the training and certification program for appraisers. Individual education is tracked utilizing the BOE annual reports. Although there is no financial incentive to obtain an advanced certificate, appraisers are encouraged to take the necessary courses to obtain the certificate.

According to the BOE report on training hours for certified appraisers in Santa Cruz County, there were seven appraisers and four auditor-appraisers deficient in training hours as of June 30, 2010. The assessor and the employees are aware of their educational needs and are taking steps to correct this problem. We have one recommendation for this program.

**RECOMMENDATION 1:** Ensure appraisers meet the annual training requirements of section 671.

In our review of the appraiser certification program, we noted 11 appraisers/auditor-appraisers that were delinquent in continuing education hours. Section 671(a) provides that in order to retain a valid appraiser's certificate, an appraiser must complete 24 hours of training conducted or

approved by the BOE each year. Section 671(b) provides that appraisers with an advanced appraiser's certificate must complete 12 hours of training annually.

The BOE's training unit provides each assessor with an annual report, summarizing each appraiser's training and certification status. The assessor should ensure that all appraisers are current in their continuing education requirements. Failure to maintain the required continuing education could create confusion about current appraisal procedures and practices, and could possibly lead to providing misleading information to taxpayers. Moreover, according to section 671(a) and (b), failure to receive such training shall constitute grounds for revocation of an appraiser's certificate or advanced certificate.

### ***Staff Property and Activities***

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties and conflicts of interest. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.

The assessor discovers staff-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the staff member acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, Statement of Economic Interests (Form 700). Form 700 requests information regarding employee ownership in any real property, other than a primary residence, as well as ownership interest in any business entity. Information provided is the nature of the interest and the percentage of ownership.

The assessor has ensured that all staff have completed Form 700. Beginning in March 2009, the assessor also began requiring all employees to complete an *Employee Property Activity Report* per Letter To Assessors No. 2008/058, which supervisors review and approve. The chief deputy assessor-administration collects and maintains the report, and files it with Form 700.

The assessor's policy is no employee shall perform work that will result in changing assessment roll data, such as, but not limited to, ownership, values, exemptions, comparable benchmarking, and property characteristics for properties owned by the employee, their spouse, parents, or children. When an appraisal for either a change in ownership or completed new construction is required on a staff-owned property or business, the assignment is given to the appraiser assigned to that geographic area. If the staff-owned property is located in their own geographic area, the appraisal is assigned to another appraiser or a supervising appraiser. Upon completion of the appraisal, it is forwarded to a chief deputy assessor and then to the assessor for review and approval. It is the assessor's policy that violation of the employee-owned assessment policy will result in discipline, including termination of employment.

The assessor has policies and procedures in place to prevent conflicts of interest. An activity employees are not allowed to engage in is non-assessor office appraisals or appraisal related activities within Santa Cruz County. The assessor's policy clearly states that violation of the

assessor's policy regarding conflict of interest shall be grounds for dismissal of such employee by the assessor.

We reviewed a number of staff-owned properties and we have no recommendations for this topic.

### **Assessment Appeals**

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeals process.

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

Santa Cruz County Ordinance 5046 provides for the establishment of the county's two assessment appeals boards (AAB). Each AAB consists of three members who are appointed by the board of supervisors. The county does not have hearing officers. Pursuant to section 1624.02, all members complete the required training when appointed to the AAB. The filing period for assessment appeals in Santa Cruz County is July 2 through November 30.

Due to the declining market over the past few years, Santa Cruz County has seen an increase in the number of appeals, with the majority involving residential properties valuation issues. Santa Cruz County conducts appeals hearings on Mondays, as necessary. Currently, the AAB holds two to three meetings per month.

The clerk is responsible for providing applications for changed assessment to the public. The application can be obtained at the clerk's office or website. When an application is received, a senior board clerk reviews it for validity, stamps it with the date received, checks the postmark for timeliness, issues an application number, and scans it into a shared computer system with the assessor. The applicant is sent a *Notice of Receipt of Application for Changed Assessment* with basic instructions regarding the appeals process. The clerk drafts an agenda of submitted applications with potential hearing dates and emails it to the assessor allowing for any changes if necessary. Communication between the clerk and the assessor is excellent and the two have an effective working relationship.

In accordance with section 1605.6, the clerk sets the matter for hearing and sends the applicant a notice no less than 45 days prior to the hearing. Over the last five years, most appeals were resolved within the two-year time period. Extensions for appeals not resolved within the two-year period were filed timely.

The chief deputy assessor-valuation (chief) oversees the appeals process in the assessor's office. The chief receives agendas from the clerk, scans them into the shared computer system, and makes updates as needed. Each appraiser is responsible for reviewing agendas to determine if any appeals are within their geographical area. The appraiser will prepare their own appeal regardless of the type. The chief will provide guidance to the appraiser, if necessary. Throughout the process, the appraisers keep the chief updated on the status of each appeal.

The assigned appraiser attempts to make contact with each applicant to try to resolve the issue prior to the appeals hearing. The assessor believes every attempt to contact the applicant and resolve the issue should be made before the matter goes before the AAB. Information provided by the applicant is reviewed and taken into consideration and, if necessary, an appraisal is made on the subject property.

If an understanding or agreement is reached, the applicant may withdraw the application or stipulate to a new value. The *Notice of Receipt of Application for Changed Assessment* initially sent to the applicant contains a section to withdraw an application. Should an applicant decide to withdraw, this section is completed and returned to the clerk. If a value change is determined by the appraiser and agreed to by the applicant, the information is given to the chief, who prepares the stipulation letter outlining the details of the assessment changes. Both the assessor and the applicant review and sign the stipulation before it is presented to the AAB. Once approved, a representative of the AAB also signs the stipulation. For each withdrawal or stipulation, the chief updates the application on the agenda accordingly.

If no agreement can be reached, the appeal process continues and a hearing takes place. During the hearing, each appraiser presents their own material. The chief is present at each hearing to introduce the appraiser and to clarify statutory issues.

During our survey, we were unable to attend an AAB hearing. We were able to review supporting information prepared and presented by appraisers from prior hearings and found them to be well organized. Overall, the assessor's appeals program is well administered; however, we found one area of concern.

**RECOMMENDATION 2:** Ensure signed withdrawal forms are submitted directly to the clerk of the assessment appeals board (AAB).

Applicants who decide to withdraw an application typically sign and return the withdrawal section of the *Notice of Receipt of Application for Changed Assessment* directly to the clerk. However, both the assessor and clerk informed the BOE that if the applicant does not have the notice, the assessor's staff will send a withdrawal form and return envelope to the applicant. The withdrawal form is typed on stationery with the assessor's letterhead and the return envelope includes the assessor's return address. Once the assessor receives the signed letter of withdrawal, it is forwarded to the clerk.

The AAB is an independent entity, whose function is to resolve value disputes between taxpayers and the assessor. Therefore, it is inappropriate for the assessor to act as an intermediary between the AAB and taxpayers by requesting taxpayers to submit withdrawal forms to the assessor.

The assessor's procedure could give an appearance that the assessor is intervening in the independent third-party review to which every appellant has the right. The assessor should revise the withdrawal letter to instruct the applicant to submit the request for withdrawal directly to the clerk of the board rather than the assessor's office. The clerk of the board should then timely forward a copy of the withdrawal form to the assessor.

### ***Disaster Relief***

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The relief is available to any assessee whose property suffers damage exceeding \$10,000 (without their fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under section 170, assesseees must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The Santa Cruz County Board of Supervisors adopted a disaster relief ordinance in 1975. The ordinance was subsequently modified in 1980, 1981, and 2002. The ordinance grants the assessor authority to initiate reassessment where it is determined that within the preceding 12 months the taxable property was damaged or destroyed. The ordinance conforms to most of the provisions of section 170.

The assessor discovers calamities through building permits issued for repairs, field canvassing, taxpayer notification, and newspaper articles. The assessor also contacts fire protection agencies to receive fire reports.

Upon discovery, the assessor mails an application to the property owner. Applications and information pertaining to disaster relief are also available at the assessor's office and on the assessor's website. Returned applications are date-stamped, logged in, analyzed by the assigned appraiser, and processed if accepted. The property owner is notified by telephone if the claim is

denied. We further verified proper notification was sent to the owners advising them of the reduced value and their appeal rights.

The following table shows the number of disaster relief claims over recent years:

ROLL YEAR	CLAIMS FILED
2009-10	23
2008-09	27
2007-08	119
2006-07	30
2005-06	38

We reviewed a number of records of properties that have been damaged by disaster or calamity. We found the assessor verified the damage amount through contractor's repair bids, insurance company statements, and field inspections. The damage is documented on a worksheet and the assessment is reduced when appropriate.

We found some areas needing improvement in the disaster relief program.

**RECOMMENDATION 3:** Improve the disaster relief program by: (1) updating the *Application for Reassessment of Property Due to a Calamity or Misfortune* to conform to section 170, (2) calculating the proration of taxes due on damaged property to include the month in which the damage occurred as required by section 170(e), (3) updating the correspondence letter to the taxpayer to include the correct filing period in accordance with section 170(d), and (4) accepting only timely filed applications.

**Update the *Application for Reassessment of Property Due to a Calamity or Misfortune* to conform to section 170.**

The current *Application for Reassessment of Property Due to a Calamity or Misfortune* does not include a statement that a claim can be made for damage to either real or personal property. Section 170(a) permits the board of supervisors to adopt an ordinance that allows every assessee of any taxable property whose property was damaged or destroyed, without fault of their own, to apply for reassessment of that property. In addition, section 170(b) provides that upon receiving a proper application, the assessor shall appraise the property and determine separately the full cash value of land, improvements, and personalty (personal property) immediately before and after the damage or destruction. Because the *Application for Reassessment of Property Due to a Calamity or Misfortune* does not conform to section 170(b), taxpayers with damaged or destroyed personal property may be unaware of their disaster relief filing rights.



**Calculate the proration of taxes due on damaged property to include the month in which the damage occurred as required by section 170(e).**

In the calculation of the prorated tax due on damaged property after reassessment, the assessor is not granting tax relief for the month in which the damage occurred on some properties. We found files where the event date being used was a later date than the actual disaster or calamity. Section 170(e) provides that relief shall be granted for the month in which the damage occurred. The taxpayer is entitled to receive tax relief for the entire month in which the damage occurred. By not using the correct event date, the taxpayer will not be obtaining the proper amount of tax relief.

**Update the correspondence letter to the taxpayer to include the correct filing period in accordance with section 170(d).**

Once the assessor's office is notified of a calamity or misfortune, a letter is sent to the taxpayer explaining the requirements for filing for a reassessment. The letter indicates the application must be filed within 60 days. Section 170(d) states if no application is made and the assessor determines that within the preceding 12 months a property has suffered damage caused by a misfortune or calamity that may qualify the property owner for relief under an ordinance adopted under this section, the assessor shall provide the last known owner of the property with an application for reassessment. The property owner shall file the completed application within 12 months after the occurrence of said damage. Failure to notify taxpayers of correct deadlines may lead the taxpayer to believe they have missed the deadline when in fact they have additional time in which to file.

**Accept only timely filed applications.**

During our review of disaster relief applications, we found some applications where relief was granted even though the applications were not timely filed. Santa Cruz County's disaster relief ordinance states the application must be filed within 12 months of the occurrence of a misfortune or calamity. Section 170(a) states the application for reassessment may be filed within the time specified in the ordinance or within 12 months of the misfortune or calamity, whichever is later, by delivering to the assessor a written application requesting reassessment. We recommend the assessor comply with section 170 and accept only timely filed disaster relief applications.

***Exemptions*****Church and Religious Exemptions**

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207,

which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The following table sets forth religious and church exemption data for recent years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2010-11	119	\$55,961,617	25	\$17,099,804
2009-10	118	\$54,682,241	31	\$22,297,699
2008-09	117	\$53,584,773	29	\$21,539,317
2007-08	118	\$54,334,247	29	\$17,009,166
2006-07	123	\$53,676,915	26	\$16,524,619

The church and religious exemptions are generally well-administered. However, we found several areas where improvements can be made.

**RECOMMENDATION 4:** Improve the church and religious exemption program by: (1) ensuring that only qualifying properties receive the church exemption, and (2) ensuring that the appropriate exemption claims are filed.

**Ensure that only qualifying properties receive the church exemption.**

We found that the assessor improperly granted the church exemption to a property being used as a preschool.

The church exemption permits exemption of owned or leased real and personal property for worship and sacramental purposes only. The use of the property as a preschool is a non-qualifying use under the church exemption. If the preschool qualified for an Organizational Clearance Certificate (OCC) and owned property or leased property from another organization receiving the welfare exemption, the operation of a preschool under the welfare exemption may be considered as a qualifying use. The assessor should review the property to determine if it currently has a qualifying use and consider escape assessments for the years it did not qualify.

**Ensure that the appropriate exemption claims are filed.**

We found an example where the assessor improperly granted the religious exemption to a property used for religious purposes that leased a portion of the property to the county for use as

a special education preschool. We found no other claims attached to the religious exemption filing.

The religious exemption narrowly restricts the use of the exempt property. There is a special consideration, however, for school districts. Section 214.6(b) permits a welfare exemption for the property when the religious organization files a religious claim for exemption and also annually files a church lessor's exemption claim affirming each of the following: (1) the total income received by the church in the form of rents, fees, or charges from the lease does not exceed the ordinary and usual expenses in maintaining and operating the leased property, and (2) with respect to entities that are political subdivisions of the state, the property is located within the boundaries of the exempt governmental entity leasing the same.

By granting the religious exemption to the entire property, the assessor is exempting a non-qualifying use of the property. The assessor should review all claims for qualifying use and require that requisite forms are filed in order to ensure the continued exempt use of the entire property.

### Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE or a valid SCC issued by the BOE if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner. The assessor may, however, deny an exemption claim based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table sets forth welfare exemption data for recent years:

<b>ROLL YEAR</b>	<b>WELFARE EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2010-11	609	\$794,733,080
2009-10	588	\$715,856,074
2008-09	579	\$680,532,935
2007-08	549	\$615,673,647
2006-07	600	\$588,295,797

We have no recommendations for the welfare exemptions program.

### Disabled Veterans' Exemption

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the value of a dwelling when occupied as a principal place of residence by a qualified disabled veteran (or the veteran's unmarried surviving spouse). The property must be owned by the veteran, the veteran's spouse, or the veteran and the veteran's spouse jointly. The amount of exemption is \$100,000 or, for qualifying low-income veterans, \$150,000. Both of these amounts are adjusted annually by a cost of living index.

The disabled veterans' exemption at the \$100,000 basis requires a one-time filing, while the low-income exemption at the \$150,000 level requires annual filings to ensure the claimant continues to meet the household low-income restriction.

The following table sets forth disabled veterans' exemption data for recent years:

<b>ROLL YEAR</b>	<b>DISABLED VETERANS' EXEMPTIONS</b>	<b>EXEMPTED VALUE</b>
2010-11	224	\$24,011,599
2009-10	227	\$23,981,533
2008-09	222	\$22,445,872
2007-08	196	\$19,293,611
2006-07	199	\$18,776,264

While reviewing the disabled veterans' exemption program, we found that each file contained the correct form, correctly completed, and with proper supporting documentation. Copies of the roll change request to the auditor were included in the file and showed event dates, assessed values, percentages, late filings (if applicable), and any associated penalties. The assessor correctly transferred exemptions from other residences and used the correct exemption amount for the proper year. The assessor also properly granted retroactive exemptions back to the statutorily-limited four years. Since disabled veterans' exemptions claims contain social security

numbers, the assessor ensures the safety of these claims by storing them in a secured filing cabinet in a secured office.

The assessor's disabled veterans' exemption program is well maintained and we have no recommendations for this program.

### **Assessment Forms**

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.<sup>6</sup> Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for Board-prescribed forms, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

To enforce the use of prescribed forms, the BOE requires assessors to specify in writing each year the forms they will use in the succeeding assessment year. Assessors are also required to submit to the BOE copies of the final prints of all prescribed forms they intend to use.

Our review of assessment forms revealed an area where improvements can be made.

**RECOMMENDATION 5:** Remove incorrect language from the *Notice of Proposed Escape Assessment*.

The assessor's *Notice of Proposed Escape Assessment* contains the following language: "If you still disagree with the change in assessed value, you must file an Appeal, in writing, with the Clerk of the Board of Supervisors, County Government Center, 701 Ocean Street, Santa Cruz, CA 95060, not later than sixty days from the date of this notice."

In Letter To Assessors No. 2008/021, dated March 10, 2008, we discussed the various procedures and notices associated with property that has escaped assessment. Among the notices discussed was the *Notice of Proposed Escape Assessment*, which is required by section 531.8. In conjunction with a section 531.8 notice, we advised: "An assessment made outside of the regular filing period is not effective for any purpose until proper notice is given. For that reason, an *Application for Changed Assessment (Application)* filed prior to receipt of the notice is invalid. The *Notice of Proposed Escape Assessment* is not a valid notice within the meaning of sections 534 and 1605. An *Application* filed solely upon receipt of a *Notice of Proposed Escape Assessment*, and filed prior to receipt of a *Notice of Enrollment of Escape Assessment* or a tax bill reflecting the escape assessment, is invalid because the escape has not yet been assessed."

To ensure that taxpayers are properly advised of their appeal rights, the assessor should ensure that the section 531.8 notice being used does not contain language that advises the taxpayer that they may file an appeal within 60 days of the date on the section 531.8 notice. Conversely, we strongly urge the assessor to consider adding language such as: "You may not file an appeal

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<sup>6</sup> Also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

based on this notice. After this proposed escape assessment has been processed and enrolled, you will be advised by a *Notice of Enrollment of Escape Assessment*. You will also be provided with information regarding your right to appeal either (1) the enrollment of the escape assessment or (2) the value established for the escape assessment."

## ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts and taxable possessory interests.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

### ***Change in Ownership***

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of change in ownership.

### **Document Processing**

The assessor maintains written policies and procedures for processing changes in ownership. The following table shows the total number of transfer documents received and the total number of reappraisable events in Santa Cruz County in recent years. Fluctuation of the numbers is due to refinances and increases in foreclosures.

<b>ROLL YEAR</b>	<b>TRANSFER DOCUMENTS RECEIVED</b>	<b>REAPPRAISABLE EVENTS</b>
2009-10	13,774	4,839
2008-09	15,679	4,859
2007-08	15,659	4,030
2006-07	16,992	4,809
2005-06	19,548	6,244

The assessor's primary means of discovering properties that have changed ownership is through deeds and other documents recorded at the county recorder's office. The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, to accompany documents submitted for recordation for the transfer of ownership of real property. PCORs are

available at both the assessor's and recorder's offices and websites. Local ordinance requires the assessor's parcel number (APN) to be noted on all deeds.

The Santa Cruz County Assessor also functions as the county recorder. The recorder does not initially screen recorded documents before they are sent to the assessor. All recorded documents are scanned into a shared interface program in the computer. The documents are filtered by type, and those relating to functions of the assessor are downloaded into the assessor's queue for viewing. PCORs are also scanned and matched to the recorded document in the interface program.

Assessment technicians (AT) process recorded documents by the date of recording. Dates are not worked out of order. ATs first confirm the transfer was correctly identified by parcel number. Any questionable legal descriptions, such as an incorrect parcel number, possible split or combination, are forwarded to the drafting department for proper identification. An AT verifies the ownership and determines if a change in ownership has occurred. ATs review the PCOR for completeness, verify the reported sale price against the transfer tax noted on the deed, enter the confirmed sale price in the computer system, determine if the transfer qualifies for direct enrollment, and decide if an exclusion claim form should be sent to the property owner. ATs complete the process by determining if the change in ownership results in a reappraisable event and codes the document accordingly in the computer system. Processed documents and PCORs are placed on a database for future access. Reappraisable transfers are routed to an appraiser for valuation.

The assessor also discovers potential changes in ownership through change of address requests, attachments to exclusion forms, and correspondence from transferors, transferees, attorneys, or family members. For deaths occurring within the county, discovery of potential changes in ownership are also obtained through monthly reports received from the County Health Services Department and through weekly checks with probate court. For subsequent changes in ownership resulting from the death of a property owner, the assessor properly uses the date of death as the event date.

We examined several recorded documents and found the assessor conducts a proper and thorough review for reappraisable events.

## **Leases**

The ATs initially process all long and short-term lease transactions. The assessor discovers lease transactions typically through recorded documents. The assessor attempts to obtain copies of all long-term leases. Once lease documents have been processed by the ATs and determined to be reappraisable events, the information is sent to an appraiser for valuation.

We reviewed several files involving leases and found all were properly handled in accordance with section 61(c).



## Penalties

Upon deed recordation, if a PCOR is not filed with the recorded document or is incomplete, the computer system shared by the recorder and assessor automatically generates a county created Property Transfer Questionnaire (PTQ) instead of BOE-502-AH, *Change in Ownership Statement* (COS). The property owner is given 45 days to respond. If the PTQ is not returned within 45 days, a second PTQ is generated and sent with a notification of penalty and abatement language. The assessor allows an additional 60 days for the property owner to respond before a penalty is actually applied to the assessment.

The Santa Cruz County Board of Supervisors adopted Resolution 100-83 pursuant to section 483(b), which allows for the automatic abatement of section 482 penalties if the assessee files the COS with the assessor no later than 60 days after the date on which the assessee was notified of the penalty. We confirmed the notice of penalty sent by the assessor gives the property owner at least 60 days to respond.

We found one area of concern in processing penalties.

**RECOMMENDATION 6:** Apply the section 482 penalty only when the property owner fails to timely file a Board-approved COS as requested by the assessor.

When a property owner does not file a PCOR with a recorded document or the PCOR is incomplete, the assessor does not send a COS to the property owner. Instead, the assessor sends a PTQ, which is a county-developed form, to gather property transfer information from the property owner. The PTQ contains penalty language for noncompliance.

Section 480 provides that transferees shall file a COS with the recorder or assessor in the county where the subject property is located. Section 482(a) further provides that if, upon written request from the assessor, a required party fails to file the COS within 45 days, a specific penalty shall be applied.<sup>7</sup> The COS is a Board-prescribed form and cannot be altered without BOE approval. The assessor's practice of applying penalties for failure to file a PTQ is contrary to the specific statutory requirements in section 480.

## Transfer Lists

Pursuant to section 408.1(a), the assessor maintains a two-year transfer list for public use. The public is able to access information from both paper deed register books and computers in the lobby of the assessor's office. As required by section 408.1(b), the transfer list is divided into geographical areas by APN and revised on the tenth of each month. Pursuant to section 408.1(c), the transfer list contains the transferee, APN, address of the property, date of recording, recording reference number, and consideration paid. The assessor observes the confidentiality provisions of section 481, which preclude the disclosure of information on a PCOR or COS.

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<sup>7</sup> Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties are applicable.

## Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and any entities under its ownership control. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and, hence, either do or do not constitute a change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors, because ordinarily there is no recorded document evidencing a transfer of an ownership interest in a legal entity.

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property. On a monthly basis, LEOP transmits to each county assessor a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under 64(d). A change in ownership statement must be filed with the BOE within 45 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of penalty if a person or legal entity required to file a statement under 480.1 and 480.2 does not do so within 45 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE.<sup>8</sup> The BOE advises county assessors of entities that are subject to penalty so they can impose the applicable penalty to the entity's real property.

Monthly LEOP reports received from the BOE are reviewed by one AT, who determines if any entity listed on the reports owned real property within Santa Cruz County. For changes in control, the AT will conduct a search by name to identify all properties with the same ownership to ensure all of the entity's real property, unless excluded, is considered. Once the real property parcels have been identified, the information is given to the chief deputy assessor-valuation, who will verify if the change in ownership or control results in a reappraisable event. Those events are given to an appraiser for valuation. The assessor has had only one transfer in recent years where a penalty was applied.

The county also discovers potential changes in control or ownership of legal entities from newspaper articles, information from taxpayers, and appraiser observations during field work. If the county discovers a potential change in control or ownership not listed on a LEOP report, the county notifies the BOE's LEOP section by submitting BOE-100-BR, *County Assessor Legal Entity Transfer Referral*.

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<sup>8</sup> Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends the filing requirement from 45 days to 90 days for a legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.

## Change in Ownership Exclusions – Section 63.1

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first \$1 million of other real property between parents and children. Section 63.1 also excludes qualifying purchases or transfers from grandparents to their grandchildren.

To enforce the \$1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. Even if an assessor opts not to report quarterly to the BOE, however, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have exceeded their \$1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications and information regarding section 63.1 exclusions are available to the public at the assessor's office and website. ATs review all section 63.1 applications and determine if the exclusion will be accepted or denied. The property owner is notified in writing if a claim is denied.

The assessor is very proactive regarding public awareness of potential change in ownership exclusions. If a PCOR or PTQ indicates a transfer may be between parent(s) and child(ren) or from grandparent(s) to grandchild(ren) and a claim form was not submitted, a claim form and cover letter is sent to the property owner advising of a possible exclusion from reassessment. The assessor will also send a claim form if the last names of the transferor and transferee are the same, even if the PCOR does not indicate a possible section 63.1 exclusion.

Each AT tracks the letters and claim forms they send and the appraisal files are held in a pending status until a response is received or a certain time period has lapsed. Two letters and claim forms are typically sent to the property owner and two weeks are typically given between letters. If there has been no response, the appraisal records are released from the pending status and assigned to an appraiser to reassess.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a *Report of Transferors Exceeding \$1,000,000* from the BOE, the ATs ensure the dates are correct, review the total value of transfers, disallow exclusions made after the limit was exceeded, notify the appraisers of any reappraisable percentage, process roll corrections, and report any corrections in the next quarterly report to the BOE. If necessary, contact is made with other counties and the claimant to clarify information and determine which property to exclude and which to reappraise.

Pursuant to section 63.1(i), to protect property owner confidentiality, the assessor scans all claim forms into the computer, which is not accessible by the public, and original copies are kept in a secure archived box for three years and then shredded.

The BOE reviewed several accepted and denied section 63.1 claim forms and found them to be properly handled.

### Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows people 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Santa Cruz County does not accept base year value transfers from other counties. Section 69.5 information and applications are available to the public at the assessor's office and website. If a PCOR indicates a transfer may involve a base year value exclusion, the process of notifying the property owner is similar to section 63.1 claims.

Appraisers determine the fair market value of both the replacement and original properties, compute the value comparison of the replacement property as needed, and provide the information to one AT who determines if a section 69.5 claim will be granted. The property owner is notified in writing if a claim is denied.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. The AT reviews the *Duplicate SSN Report* from the BOE to determine if any claims are duplicated within the county, have been made previously in another county, or qualify for a second section 69.5 exclusion due to a severe and permanent disability.

In compliance with section 69.5(n), information furnished on the section 69.5 claim form is protected in the same manner as a section 63.1 claim form.

We reviewed several accepted and denied section 69.5 claim forms and found them to be properly handled.

### Valuation

Once a change in ownership has been determined to be a reappraisable event, the information is typically sent to an appraiser for valuation. Every reappraisable transfer is reviewed to confirm

the listed sale price accurately reflects market value. Sale price is not automatically enrolled and may be overridden when data is available to rebut the presumption. Field inspections are conducted at the appraiser's discretion. Computer programs and other in-house tools allow an appraiser to view a subject property at their desk.

Appraisers maintain in-house residential and commercial databases to assist with the valuation process. Typically, residential properties are valued using the comparable sales approach or cost approach, and the comparable sales and income approaches are considered when valuing commercial properties. For partial interest transfers, the reappraisable portion is valued at market value and added to the factored base year value of the non-reappraisable portion. The partial interest is given a separate base year value, and the correct inflation factor is applied. Market value conclusions are documented on the appraisal record and entered in the computer system. Any supporting documents are scanned and electronically attached to the file.

Our review of several files indicates the assessor properly values changes in ownership, including partial interest transfers and foreclosures. The assessor correctly processes supplemental assessments.

### **Direct Enrollment Program**

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraiser involvement. Santa Cruz County has a direct enrollment program for residential properties, including townhomes and condominiums.

In recent years, direct enrollments have represented approximately 35 percent of the total reappraisable transfers in the county. To qualify as a direct enrollment, the transfer must involve a certain use code and the transfer stamp amount must be equal to or within \$5,000 of the confirmed sale price on the PCOR.

When recorded documents and PCORs are downloaded to the assessor, transfers matching direct enrollment criteria are automatically flagged by the system. When an AT reviews the transfer for a change in ownership, they have the ability to remove the direct enrollment flag for a manual appraisal or allow the direct enrollment to proceed on to a holding file. Appraisers receive a list of direct enrollments within their geographical area from this file. Each appraiser has the ability to purge a direct enrollment if more research is needed. Direct enrollment values not purged by an appraiser are automatically enrolled. We found no problems with the assessor's direct enrollment process.

### **New Construction**

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and

on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and the Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 70(c) and (d), and sections 73 through 74.7 address these exclusions.

The Santa Cruz County Assessor has written procedures, policies, and forms dealing with the discovery and assessment of new construction. The assessor's website provides information regarding new construction, as well as exclusion forms for taxpayers.

### Discovery

Building permits are the assessor's primary means of discovering new construction. The assessor receives permits from five permit issuing agencies: County of Santa Cruz Planning Department, City of Santa Cruz Planning and Community Development, City of Watsonville Community Development, City of Scotts Valley Planning Department, and City of Capitola Community Development. Other discovery methods include performing field canvassing by appraisers in their assigned areas, the review of business property statements, and information received from taxpayers. The County of Santa Cruz Planning Department and the City of Santa Cruz Code Compliance also notify the assessor's office of any unpermitted new construction.

### Permit Processing

The assessor's office is able to electronically access building permits and final notices from the County of Santa Cruz Planning Department and the City of Santa Cruz Planning and Community Development Department. The information is processed by the assessor's office on a monthly basis. The cities of Watsonville, Scotts Valley, and Capitola email newly issued permits and finals each month to the assessor's office. If the building plan is not available electronically, the appraisers pick up building plans based on their assigned area.

The following table shows the number of building permits received and the number of permits resulting in new assessments in recent years:

ROLL YEAR	ASSESSABLE PERMITS
2009-10	692
2008-09	1,043
2007-08	1,597
2006-07	1,597
2005-06	1,788

Once the permits and final notices are received, the information is entered into the computer system. Although not required by ordinance, the assessor's parcel number is listed on the permit. Each appraiser is responsible for monitoring the computer system for permits and finals in their assigned area. The system allows parameters to be entered (such as a date range) to ensure all permits and final notices have been completed and processed by the appraiser. The assessor and the chief deputy assessor-valuation are responsible for discarding any permits that do not add value, such as repair and maintenance, re-roofing projects, and electrical work. Any unpermitted new construction is enrolled as of the date of completion. If the date of completion cannot be determined from the property owner or from a permit issued after the completion of the original unpermitted new construction, the appraiser uses their best judgment to determine when the new construction was complete. The assessor enrolls supplemental assessments, as allowed by law, for unpermitted new construction when discovered.

### Construction in Progress

On each lien date, section 71 requires the assessor to enroll construction in progress at its fair market value. The appraiser must determine the completion status of new construction at each lien date and assign a value based on the percentage completed. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. We reviewed property records and found the assessor is correctly valuing new construction in progress by determining the percentage of completion as of lien date and calculating market value using published costs, reported costs, and market analysis.

### Valuation

Although the cost approach is the primary approach to value new construction, the appraiser utilizes the appropriate approach based on the property being valued. The appraisers typically value new residential construction using the cost approach to value. The cost approach and the income approach are used in determining the value of new construction for commercial and industrial properties. The assessor uses a variety of sources to develop a cost indicator of value for new construction, which includes the Assessors' Handbook Section 531, *Residential Building Costs*, the owner's reported costs, and *Marshall Valuation Service* for commercial and industrial

properties. Appraisers can elect to send out a *Construction Cost Breakdown* form to gather information to assist in the valuation of commercial properties. Based on the type of new construction, the appraiser will determine if a field inspection is necessary. All newly constructed buildings are sketched using Apex drawing software. Each appraiser is responsible for preparing the sketch and attaching it to the property record. Supplemental assessments are created and issued based on the date of completion for new construction activity that adds value.

We found the assessor's program for the assessment of new construction to be thorough and the values reasonable.

### ***Declines in Value***

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its FBYV on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then the assessor must enroll the FBYV.

The following table shows the number of decline-in-value assessments processed in Santa Cruz County over recent years:

<b>ROLL YEAR</b>	<b>DECLINE-IN-VALUE ASSESSMENTS</b>
2009-10	19,053
2008-09	5,778
2007-08	42
2006-07	42
2005-06	32

With the recent downturn of the housing market, Santa Cruz County has experienced a notable decline in property values. Property values for the 2005-06 through 2007-08 roll years remained constant. However, beginning in the 2008-09 roll year, the property values began to make a notable decline, causing a significant increase in the number of decline-in-value assessments. The majority of the properties that have declined are residential properties.

The assessor has both a formal and an informal program to annually adjust residential properties with a market value that is less than the FBYV. For the formal program, the assessor utilizes a computerized program to generate a report that is based on paired sales analysis of the properties within an established date range. Once the report is generated, the assessor sorts through the information and will remove any properties with invalid indicators of value or any other potential discrepancies. The properties removed from the list are then reviewed by appraisers to confirm whether or not a decline is warranted. The appraiser must certify each valuation before it is enrolled. Appraisers are able to override values created by the computerized program. Declines in value for commercial and industrial properties are primarily discovered through taxpayer



requests and appraisers' knowledge of values. If a property in a homogenous area is reduced, neighboring properties are also reviewed for potential declines.

The assessor also has an informal review program to allow property owners to request a review of their property value. The *Request for Reappraisal* form is located at the front counter of the assessor's office, as well as on the assessor's website. The website also includes information regarding decline-in-value reductions. Once a request for review is received, the information is logged into a tracking sheet. The appraisers review the property for a possible decline in value using comparable sales analysis. If a decline-in-value assessment is granted, the property is coded into the assessment system to prevent application of the annual inflation factor. The code also makes the properties easy to identify for annual reviews. Once the decline-in-value assessment is completed, a notice is mailed to the taxpayer explaining the review process and reduced value.

Value notices are sent to property owners when the assessed value has changed due to a decline in value, if the decline in value remains on the roll for the current assessment year, or if the decline in value has been fully or partially restored. The notice includes the FBVY, the proposed decline-in-value assessment, and information regarding the taxpayer's right to appeal the assessment. We found the assessor's decline-in-value assessments to be well documented and we have no recommendations for this program.

### ***California Land Conservation Act Property***

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based on agricultural income-producing ability (including income derived from compatible uses such as hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides guidance for the appraisal of these properties.

For the 2010-11 roll year, Santa Cruz County had 315 parcels encumbered by CLCA or Open Space (OS) contracts, encompassing approximately 22,700 acres. The total assessed value for land and improvements of CLCA/OS properties was \$140,326,259. Santa Cruz County has seven parcels in nonrenewal status. No contracts have been cancelled since our prior survey. Most of the agricultural property in Santa Cruz County consists of fruit crops, with the majority being berries, apples, and wine grapes.

## Valuation of CLCA Property

The valuation of CLCA property in Santa Cruz County, including associated changes in ownership and new construction, is the responsibility of the chief deputy assessor-valuation and one real property appraiser. The CLCA assessment program is computerized, including the annual recalculation of nonrenewal values and the annual comparison between current restricted values, factored base year values, and current market values. The assessor compares the total restricted value of the appraisal unit to the factored base year value of the same unit and the current market value as if unrestricted. The current market value is rarely the lowest value indicator and is presumed to set the upper limit of value.

When a restricted property sells having a residence, the assessor correctly establishes a new homesite value based on current market conditions and correctly issues supplemental assessments for the homesite and nonrestricted improvements.

The assessor calculates restricted values using a properly developed capitalization rate that includes the BOE supplied interest component, a risk component, and a property tax component. Rents are updated upon analysis of rental and expense information submitted with agricultural questionnaires and information from the county's annual crop report.

In our review of the Santa Cruz County CLCA/OS program, we noted a number of positive practices. We found that the assessor uses an inclining-stable-declining approach for living improvements as advised in AH 521 and that properties in nonrenewal are being valued correctly. Overall, we found the program to be well managed. However, we did find an area where improvement can be made.

**RECOMMENDATION 7:** Discontinue the exemption of low-value CLCA properties.

The assessor currently exempts CLCA properties having a value of less than \$2,000 under the county's low-value ordinance, authorized by section 155.20. However, section 155.20(c) provides that this statute does not apply to property listed in section 52. Among those properties listed in section 52 are properties valued commencing with section 421 (enforceably restricted properties).

The assessor's policy of exempting CLCA properties under the county's low-value ordinance has resulted in the underassessment of these properties.

## ***Taxable Possessory Interests***

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

The assessor enrolled 1,369 taxable possessory interests for the 2010-11 roll year, with a total assessed value of \$47,419,740. The majority of taxable possessory interests in Santa Cruz

County are marina slips at the Santa Cruz Harbor and hangars at the Watsonville Airport. Other types of taxable possessory interests include private interests at the fairgrounds, cable television franchises, employee housing, property owned by redevelopment agencies, and other uses at the marina and airport.

The chief deputy assessor-valuation (chief) is responsible for the assessment of all taxable possessory interests of marina slips and airport hangars. One senior appraiser is responsible for the discovery and assessment of all other taxable possessory interests in the county. The assessor does not utilize BOE-502-P, *Possessory Interests Annual Usage Report*, as a tool for discovering taxable possessory interests.

Each year the chief contacts the Santa Cruz Harbor and Watsonville Airport to obtain a list of tenants and rent information. Actual rents used in the valuation of marina slips are obtained from the Santa Cruz Harbor's website. Marina slips and airport hangars are typically on month-to-month leases. The assessor has established a reasonably anticipated term of possession of five or ten years for these interests. Once the information is obtained from the agency, the assessor enters updated rent information in the computer and compares the current market value to the factored base year value, enrolling the lower of the two. The assessor does not assess month-to-month leases on a declining term. Instead, once a base year is established, it is factored and compared annually to the market value using the anticipated five or ten-year term. Once the reasonably anticipated term of possession has expired, a change in ownership is processed, a new base year value is established, and appropriate supplemental assessments are issued.

The senior appraiser created a spreadsheet to track all other taxable possessory interests. The spreadsheet shows the expiration of the reasonably anticipated term of possession to assist with change in ownership decisions and compares market value to the factored base year value. Each year the senior appraiser sends agencies a list of all taxable possessory interests from the prior year. The agency is asked to make changes as necessary. Once the list is returned, the senior appraiser reviews the information to determine if any adjustments need to be made and to determine what value will be enrolled.

Market rent is typically used in the valuation process; however, if an agency reports a reasonable rent, the assessor will use contract rent. The assessor deducts for vacancy and operating expenses. Taxable possessory interests with a stated term are properly reviewed annually and adjusted accordingly for a decline in value. Supplemental assessments are issued correctly.

Santa Cruz County adopted and approved Resolution 480-99 in accordance with section 155.20 to exempt real property having a base year value of \$2,000 or less. The resolution does not provide for an increase in the exemption to \$50,000 for uses at the fairground.

We reviewed a number of taxable possessory interest records. We commend the assessor for creating an effective spreadsheet to track terms and conditions of taxable possessory interests; however, we did find some areas needing improvement with the overall program.

**RECOMMENDATION 8:** Improve the taxable possessory interest program by:  
(1) assessing all taxable possessory interests, and  
(2) obtaining copies of all lease agreements or permits  
that create taxable possessory interests.

**Assess all taxable possessory interests.**

We discovered the assessor does not review all potential taxable possessory interests. Our review of the concessionaires at the Santa Cruz County Fairgrounds indicated only the carnival concession and speedway are assessed as taxable possessory interests. We determined from the list of concessionaires provided by the fairgrounds that there are several other concessions that may also qualify as taxable possessory interests and were not reviewed or assessed. Failure to assess all taxable possessory interests results in escaped assessments.

**Obtain copies of all lease agreements or permits that create taxable possessory interests.**

We found the majority of taxable possessory interest files reviewed did not contain copies of leases for the interests being assessed. The assessor relies on information from tenants and historical information to value taxable possessory interests. Copies of leases are not typically requested.

Rule 21 describes the various approaches to value and how to determine the term of possession for the valuation of taxable possessory interests. Rule 21(d) explains the stated term of possession is deemed the reasonably anticipated term of possession except in certain situations, and Rule 21(e)(3)(C) explains how to determine the net operating income for capitalization purposes. These steps in the valuation process cannot be completed if the contract conveying the taxable possessory interest is not reviewed.

The data requested and gathered by the assessor provides some information; however, it is not an adequate substitute for the actual leases. Unconfirmed data may be inaccurate or incomplete and lead to incorrect assessments.

***Mineral Property***

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties, and are specific to mineral properties only.

There are no assessable high temperature geothermal or petroleum properties in Santa Cruz County. Also, there are no unpatented mining claims located in the county.

**Mining Properties**

Mining property mineral rights refer to the rights to explore, develop, and produce minerals, other than oil, gas, and geothermal resources, and the real property associated with these rights.

Pursuant to Rule 469, the rights to enter in or upon land for the purpose of exploration, development, or production of minerals are taxable real property interests to the extent they individually or collectively have ascertainable value. "Minerals" means organic and inorganic earth material including rock but excluding oil, gas, and geothermal resources.

Santa Cruz County has three active mining properties. The mineral value assessed in the county is about \$1.4 million. This value does not include the value of fixtures and improvements associated with the mining properties.

**RECOMMENDATION 9:** Assess mining property according to the provisions of Rule 469 by: (1) measuring declines in value for the entire appraisal unit, (2) treating settling ponds as a separate appraisal unit, and (3) applying the correct index factors to base year values.

**Measure declines in value for the entire appraisal unit.**

The assessor does not consider the total value of the appraisal unit when determining whether to enroll the adjusted base year value or the current market value of the mining property for the lien date. The value of fixtures and improvements is determined separately from the rest of the mineral property using percent good tables.

The result of these procedures is that the current market value of the fixtures and equipment and the adjusted base year value of the mineral rights are enrolled. This is in conflict with the provisions of Rule 469(e)(2)(C) that requires either the adjusted base year value or the current market value of the appraisal unit be enrolled. This mixture of current market value and adjusted base year value is in conflict with the intent of Rule 469.

**Treat settling ponds as a separate appraisal unit.**

Aerial photos of the currently active quarry locations show that the quarry properties have settling ponds. These ponds are typically used to collect water used for washing the gravel to provide a clean product that meets customer's specifications and needs. The wash water is then collected to allow the small particulate matter to settle before the water is recycled in the operation. Section 53.5 requires that each settling pond be considered a separate appraisal unit with a separate base year value for purposes of determining its taxable value. Failure to treat the settling ponds in this manner is a violation of the statute.

**Apply the correct index factors to base year values.**

Review of the assessor's calculation for the base year value adjustments to the mineral rights showed that an index factor of 1.02 was applied for the 2010-11 roll year. This adjustment is incorrect. The correct index factor for the 2010-11 roll year is 0.99763. The assessor's calculations overstate the mineral rights adjusted base year values.

## **ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES**

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

During the surveyed tax year, the assessor's staff assigned to the business property program consisted of two full-time auditor-appraisers and one half-time auditor-appraiser, operating under the direction of the chief auditor-appraiser.

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, valuing business equipment, as well as assessing manufactured homes, aircraft, and vessels.

### ***Audit Program***

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

Prior to January 1, 2009, section 469 required county assessors to audit at least once every four years the books and records of any taxpayer engaged in a profession, trade, or business if the taxpayer has assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of property taxpayers with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

The following table shows the assessor's audit workload and production during recent years:

ROLL YEAR	2009-10	2008-09	2007-08	2006-07	2005-06
Audits Scheduled	40	55	63	53	57
Audits Carried Over from Prior Year	2	0	1	0	0
<b>Total Audit Workload</b>	42	55	64	53	57
Audits Completed	34	53	64	52	57
<b>Audits Carried Forward</b>	8	2	0	1	0

As noted previously, effective January 1, 2009, section 469 specifies a minimum audit workload equal to 75 percent of a statutorily defined base level. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete 40 audits per year hereafter. During the 2009-10 roll year, the assessor completed only 34 audits and expects audit production to be even less in subsequent years.

**RECOMMENDATION 10:** Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

The assessor did not conduct the minimum number of audits required under the provisions of section 469. The assessor's shortfall is likely due to the recent loss of audit and support staff resulting from budgetary reductions. There is no indication resources will be available in the near future to fill the vacant positions. Consequently, it appears the assessor will continue to fall short in meeting his statutory obligations for the near future.

An audit program is an essential component of any equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of either verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, experience shows that when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is also an important factor in an effective audit program and ultimately a well-managed assessment program. By failing to conduct a significant number of audits in a timely manner, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to permanently escape assessment.

### Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed-time period, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

As a general rule, the assessor requests waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner. However, due to staffing limitations for the 2010-11 roll year, waivers were not presented to audit candidates unless requested.

**RECOMMENDATION 11:** Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.

The assessor has ceased requesting waivers of the statute of limitations in cases where audits could not be started or completed within the statutory period defined by section 532.

Section 532 provides that assessments must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

A waiver of this nature protects the taxpayer during the audit process should an overassessment be discovered and allows the assessor to enroll an escape assessment if a reporting deficiency is found. By failing to obtain waivers, the assessor may allow taxable property to escape assessment should the statute of limitations expire prior to the completion of the audit. Consequently, revenue could be permanently lost.

### **Audit Quality**

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We found the assessor performs change in control (ownership) reviews, verifies leased equipment, accounts for supplies, and properly classifies equipment during the audit process. We sampled several recently completed audits and found in all cases audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. Audit quality is further enhanced by a standardized review process where every audit completed by the assessor's staff is reviewed by the chief auditor-appraiser.

### **Business Property Statement Program**

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more annually file a business property statement (BPS) with the assessor; other people must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the BPS address a variety of property types, including commercial, industrial, agricultural, vessels, and certificated aircraft.



For the 2010-11 roll year, approximately 6,200 BPSs were processed by Santa Cruz County. Auditor-appraisers process all BPSs under direction of the chief auditor-appraiser.

### **Discovery**

Auditor-appraisers discover taxable personal property using various methods including, but not limited to, review of the following: business directory services, sales tax permits, newspaper articles, and the Internet. The county also conducts field canvassing on an annual basis to ensure that all businesses are included in their records.

### **Direct Billing**

Many assessors use an assessment procedure called "direct billing." Direct billing is a method of assessing qualified business accounts without the annual filing of a BPS. For the 2010-11 roll year, Santa Cruz County had approximately 4,200 accounts enrolled in the direct billing program. Accounts typically set up under this program are stable accounts with a personal property cost less than \$100,000. After the initial assessed value is determined and the account is coded as a direct billing account, a postcard is sent on an annual basis requesting that the taxpayer file a BPS if the equipment level has changed.

Property statements are sent to taxpayers in the direct billing program once every four years to determine changes of business property, including acquisition and disposal of equipment, changes in ownership, or location. At this time, the assessed value is updated and it is determined if the account should remain in the direct billing program or receive a BPS on an annual basis.

### **Filing Procedures**

A BPS is returned to the taxpayer if it is not signed by the taxpayer or an authorized representative. Additionally, a BPS is either returned to the taxpayer or the taxpayer is called by county staff if the costs reported are inconsistent with the previous year or the BPS or attachments do not appear complete.

The assessor prints a "Penal Assessment Worksheet" for each late-filed account. County staff completes each worksheet to determine the assessed value for these accounts. A late-filing penalty, as required by section 463, is applied to this assessed value. If the taxpayer files a BPS, but it is not filed timely, the assessed value is computed based on the late-filing BPS and a late-filing penalty is applied.

### **Summary**

Overall, we found the assessor's BPS processing program to be effectively administered. The procedures in place are well structured and compliant with existing law. We have no recommendations regarding this topic.

### ***Business Equipment Valuation***

Assessors value most machinery and equipment using business property value factors. Some valuation factors are derived by combining price index factors with percent good factors, while

other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581).

The assessor uses a codification system to identify and designate the specific valuation tables for business property. These tables are based on the valuation factor tables published by the California Assessors' Association. In most cases, these factors follow AH 581 factors.

We reviewed the valuation of business equipment and fixtures reported on various types of business accounts, such as retail, farming, construction, medical, service stations, equipment leasing, manufacturing, and financial institutions. We found that the factors were applied consistently within industries and supplies were estimated when not reported.

Rule 10 provides that property must be assessed at the proper level of trade based on its location and use on the lien date. The trade level concept typically applies to leased equipment and self-constructed equipment. We found that the assessor makes trade level adjustments when applicable. We have no recommendations concerning the assessor's business equipment valuation program.

### ***Manufactured Homes***

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

The following table sets forth manufactured homes data in Santa Cruz County for recent years:

ROLL YEAR	NUMBER OF MANUFACTURED HOMES	VALUE <sup>9</sup>
2010-11	2,840	\$272,446,802
2009-10	2,784	\$270,660,121
2008-09	2,663	\$256,779,473
2007-08	2,575	\$233,445,855
2006-07	2,448	\$208,551,708

The primary method of discovering manufactured homes is through the State Department of Housing and Community Development's (HCD) listing of transfers, voluntary conversions, and new registrations. The county also discovers manufactured homes through dealer reports of sales and through building permits.

Valuation of manufactured homes is conducted by the appraiser assigned to the geographical area in which the manufactured home is located. We found that the assessor uses Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), to value manufactured homes to ensure the significant value attributable to the park location in Santa Cruz County is not included in the assessed value of the manufactured home. This valuation process is consistent with the guidance provided in Assessors' Handbook Section 511, *Assessment of Manufactured Homes and Parks* (AH 511), page 41. Supplemental assessments are processed when applicable. However, we did find that the assessor does not conduct annual or periodic reviews for declines in value of manufactured home assessments.

**RECOMMENDATION 12:** Periodically review assessments of manufactured homes for declines in value.

After the initial enrollment of a manufactured home, the assessor factors the base year value on an annual basis with no review for declines in value. Section 5813 provides that the taxable value of a manufactured home shall be the lesser of its factored base year value or its full cash value as of the lien date, considering reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value. Periodic review of manufactured homes ensures declines in value are recognized and properties are properly valued. Manufactured homes typically decline in value each year. Although the assessor is not required to reappraise all properties each year, he should develop a program to periodically review the assessments of manufactured homes to ensure declines in value of manufactured homes are recognized accurately and consistently. The assessor's lack of review for declines in value of manufactured homes may result in overassessments in years subsequent to the initial assessment.

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<sup>9</sup> The value in the table includes the value of the manufactured homes, accessories, and improvements.

## Mobilehome Parks

There are 81 mobilehome parks in Santa Cruz County; of those, 20 are resident-owned parks. Section 62.1 excludes certain transfers of parks from change in ownership if the park is ultimately purchased by at least 51 percent of the tenants renting the individual spaces of the park. Qualifying conversion to resident ownership under this section permits the residents of the park to retain the base year value of the previous park owner, rather than triggering a reassessment of the park to current market value. This exclusion applies to transfers of parks on or after January 1, 1985.

Generally, once a transfer of a park has been excluded from change in ownership pursuant to one of the provisions of section 62.1, subsequent transfers of individual ownership interests in the park are not excluded from change in ownership and are subject to reappraisal. Of the 20 resident-owned parks in the county, 18 were excluded from change in ownership when transferred to a resident-owned park. Therefore, when there is a change in ownership of a manufactured home in any of these 18 parks, the individual ownership interest in the park that transfers with the manufactured home is also subject to reappraisal.

To track changes in ownership, the county sends a letter to resident-owned park managers in January each year requesting a report that lists the changes for the previous year. Additionally, BOE-502-A, *Preliminary Change of Ownership Reports* (PCORs), are dropped off with the park managers to make the forms available to those that acquired an ownership interest in the park. The assessor follows up with each park to ensure that the reports are returned by the park managers and the PCORs are returned by the applicable residents. We reviewed several changes in ownership of manufactured homes in resident-owned parks. We found that the assessor has procedures in place to track changes in ownership of individual interests in resident-owned parks and conducts a reappraisal of the ownership interests in these parks when appropriate, following the methodology provided in AH 511, pages 65 to 68.

## **Aircraft**

### General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business, but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest* (*Bluebook*) as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference* (*Vref*) as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2010-11 roll year, the assessor enrolled 290 general aircraft with a total assessed value of \$28,752,481.

Aircraft assessment responsibilities in Santa Cruz County are handled by a part-time auditor-appraiser. The assessor discovers aircraft through airport operators' reports, other county referrals, annual field canvasses, and FAA listings.

Each year the assessor mails BOE-577, *Aircraft Property Statement*, to the known owner of each aircraft in the county requesting current information. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information if applicable. The aircraft statement indicates a filing due date of April 1 and accompanies an official request containing penalty language pursuant to section 5367.

The auditor-appraiser processes each returned property statement. Submitted statements are first reviewed for completeness and the inclusion of authorized signatures. Incomplete statements are returned to the property owner for completion. All others are batched and readied for processing. Enrolled values are calculated with the aid of the computerized version of the *Bluebook*. A valuation worksheet for each aircraft to be appraised is generated by this software to document the source and components included in the value conclusion.

We reviewed several general aircraft records for valuation methodology, legal signatures, and the application of late or failure to file penalties pursuant to section 5367. We found the assessor's procedures for the discovery, valuation, and assessment of general aircraft conform to statutory provisions and guidelines set forth in the Assessors' Handbook 577, *Assessment of General Aircraft* (AH 577), and Letter To Assessors No. 97/03.

### Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as: (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

There were five historical aircraft exemptions granted for the 2010-11 roll year in Santa Cruz County with a total value of \$134,100. The assessor properly obtains signed affidavits in the format prescribed by the BOE, and certification of attendance for historical aircraft exemptions claimed within the county pursuant to section 220.5(c). We reviewed several historical aircraft assessments and exemption claims. We found the assessor has properly granted the exemption when legal conditions were met and correctly denied the exemption when the statutory requirements were not met.

## Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbor masters' reports, and field canvassing.

Santa Cruz County has a single harbor where both pleasure boats and commercial fishing vessels are moored. The assessor enrolled 1,715 vessels for the 2010-11 roll year, with a total assessed value of \$37,041,882.

The following table displays the number and value of vessels assessed in Santa Cruz County during recent years:

ROLL YEAR	VESSELS	ASSESSED VALUE
2010-11	1,715	\$37,041,882
2009-10	1,774	\$38,246,170
2008-09	1,981	\$41,548,751
2007-08	2,001	\$41,762,289
2006-07	2,009	\$42,563,430

## Valuation

Vessels include every description of watercraft used for pleasure, transportation, scientific research, and commercial activities. For the purposes of California property taxation, vessels are valued at their fair market value every year as of the January 1 lien date. Sections 401 and 401.3 require the assessor to value boats at market value each year. One certified auditor-appraiser, under the direction of the chief deputy assessor-valuation, administers the assessor's vessel program. The assessor values newly enrolled vessels with the aid of the National Automobile Dealers Association *Marine Appraisal Guide*, the *BUC Used Boat Price Guide*, the cost code assigned by the DMV, and the purchase price when reported.

In Santa Cruz County, the assessor appraises vessels upon transfer or when newly enrolled in the county. He then applies an annual fixed depreciation rate of 5 percent to arrive at values for subsequent lien dates. Santa Cruz County has a low-value ordinance exempting personal property valued at less than \$5,000. Therefore, vessel enrollments with values falling below the low value ordinance are inactivated. We found the assessor's valuation methodology lacking in two areas.

**RECOMMENDATION 13:** Improve the valuation of vessel assessments by: (1) using a market derived procedure to value vessels, and (2) adding sales tax as a component of market value.

**Use a market derived procedure to value vessels.**

After an initial vessel assessment is made, the assessor annually applies a single fixed depreciation factor to all vessels and personal watercraft to calculate current market value. While the practice of using a fixed depreciation adjustment simplifies the assessment process, it may or may not reflect market value. In addition, there is no current market study or research supporting the depreciation factor used by the assessor.

According to Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures* (AH 504), the use of valuation factors should be supported by a recognized sampling method. To utilize sampling of current market evidence, assessors must develop and use recognized methods that will be accepted with confidence by the BOE and property owners.

The assessor may also use the recently developed vessel valuation factors provided by the BOE. To promote uniformity of vessel assessments among counties within California, the BOE developed market derived depreciation tables available for use by assessors since the 2009 lien date. These depreciation factors were developed with the assistance of many county assessors to be used in the mass appraisal of vessels when determining a value for property taxation purposes.

**Add sales tax as a component of market value.**

The assessor establishes the initial valuation of most vessels entered onto the unsecured roll by referring to widely recognized value guides. However, because these vessel guides have national application, their listed values do not include California sales tax, which must be included to obtain the full market value. We found numerous cases where the assessor developed a value conclusion derived from these guides that did not include a sales tax component over and above the published value indicator. Furthermore, we found cases where assessed values were based upon the reported purchase price composed of even numbers and likely not inclusive of sales tax.

Generally, the addition of sales or use tax to a value estimate is required to approximate the market value to the consumer. Assessors' Handbook Section 576, *Assessment of Vessels* (AH 576), page 13 states, "The addition of taxes, freight, and transportation charges to the list price of a vessel is consistent with an appraisal approach that gives consideration to the consumer's total cost in arriving at market value." Furthermore, the court case of *Xerox Corp. v. Orange County*, 66 Cal.App.3d 746, established that under the market value concept, where price is the basis of value, sales tax and freight charges are elements of value. Without including all the elements of the cost, the assessor's values are understated.

**Vessel Property Statements**

The assessor utilizes DMV reports, marina reports, field canvasses, published information from the Internet and newspapers, and referrals from other counties to discover taxable vessels sited in Santa Cruz County. The assessor mails a *Vessel Owner's Report* to the registered owner of all vessels newly enrolled in the county, as well as those subject to a change of ownership. Once a

vessel account is established and the property owner returns a *Vessel Owner's Report*, a postcard is mailed on an annual basis stating the proposed assessed value and requesting information regarding any changes in ownership status or condition.

**RECOMMENDATION 14:** Require vessel owners to file annual vessel property statements for all boats costing \$100,000 or more.

We found the assessor does not send BOE-576-D, *Vessel Property Statement*, to all owners of those vessels costing over \$100,000. Section 441 requires each person owning taxable personal property, other than a manufactured home, having an aggregate cost of \$100,000 or more for any assessment year, to file a signed annual property statement with the assessor. This provision also applies to all vessels, including noncommercial vessels. Having this information will provide the assessor with current and accurate data regarding replacement engines and new accessories. Failing to require owners of such vessels to file a property statement increases the risk of inaccurate assessments based on insufficient information and allows for noncompliance of statutory provisions.

### Vessels Qualifying for the 96 Percent Exemption

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements in section 227. For vessel's owners to qualify for the exemption, they must file BOE-576-E, *Affidavit For 4 Percent Assessment Of Certain Vessels*. If the taxpayer files an affidavit by February 15, a 96 percent exemption may be granted. When filed after February 15, but before August 1, the assessor may still grant a reduced exemption of 76.8 percent (80 percent of the 96 percent exemption). However, no exemption may be granted for those taxpayers filing an affidavit after August 1.

During the 2010-11 roll year, 30 commercial vessels in Santa Cruz County qualified for the 96 percent exemption provided in section 227. We sampled several partially exempt vessels and found that the exemption forms were sufficiently completed and exemptions were appropriately granted when the qualifications in section 227 were met.



## **APPENDIXES**

### ***A. County-Assessed Properties Division Survey Group***

#### ***Santa Cruz County***

##### ***Chief***

Dean Kinnee

##### ***Survey Program Director:***

Benjamin Tang

Principal Property Appraiser

##### ***Survey Team Supervisor:***

Pamela Bowens

Supervising Property Appraiser

##### ***Survey Team Leader:***

Glenn Danley

Senior Specialist Property Appraiser

##### ***Survey Team:***

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Tammy Aguiar

Associate Property Appraiser

Angie Berry

Associate Property Appraiser

Annette Lee

Associate Property Appraiser

Brian Salmon

Associate Property Appraiser

Jeff Arthur

Associate Property Auditor-Appraiser

Ladeena Ford

Business Taxes Specialist II

## ***B. Relevant Statutes and Regulations***

### ***Government Code***

#### **15640. Survey by board of county assessment procedures.**

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

#### **15641. Audit of records; appraisal data not public.**

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located, of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

**15642. Research by board employees.**

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

**15643. When surveys to be made.**

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

**15644. Recommendations by board.**

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

**15645. Survey report; final survey report; assessor's report.**

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report.

The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement or the reasons for not implementing, the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

**15646. Copies of final survey reports to be filed with local officials.**

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

***Revenue and Taxation Code*****75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
  - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
  - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

### ***Title 18, California Code of Regulations***

#### **Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
  - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
  - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

**Rule 371. Significant assessment problems.**

(a) For purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the Board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting audits in accordance with Revenue and Taxation Code section 469.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code sections 107 et. seq.

- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
  - (8) Discovering and assessing property that has suffered a decline in value.
  - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.



## **ASSESSOR'S RESPONSE TO BOE'S FINDINGS**

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Santa Cruz County Assessor's response begins on the next page. The BOE has no comments on the response.



# County of Santa Cruz

**SEAN SALDAVIA, ASSESSOR-RECORDER**

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**Claudia Cunha**

*Chief Deputy-Administration*

**Patrick Rooney**

*Chief Deputy-Valuation*

**Carol D. Sutherland**

*Chief Deputy-Recorder*

May 4, 2012

Mr. Dean Kinnee, Chief  
Property & Special Taxes Department  
State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0064

**RECEIVED**

**MAY 09 2012**

County-Assessed Properties Division  
State Board of Equalization

Dear Mr. Kinnee:

Pursuant to section 15645 of the Government Code, I am providing a written response to the findings and recommendations contained in the April 2012 Santa Cruz County Assessment Practices Survey. Please include my response in your final report.

I would like to thank the Board of Equalization survey team for their professionalism during the survey process. Their constructive comments regarding our processes and practices are appreciated.

I also want to thank the staff of the Santa Cruz County Assessor's Office for their dedication, professionalism and commitment to serving the citizens of Santa Cruz County.

Sincerely,

Sean Saldavia  
Santa Cruz County Assessor-Recorder

Santa Cruz County  
Response to Recommendations

**Recommendation 1:** Ensure appraisers meet the annual training requirements of section 671.

We concur. All appraisers are now current with the training requirements of section 671.

**Recommendation 2:** Ensure signed withdrawal forms are submitted directly to the clerk of the assessment appeals board (AAB).

This recommendation has been implemented.

**Recommendation 3:** Improve the disaster relief program.

This recommendation has been implemented.

**Recommendation 4:** Improve the church and religious exemption program.

This recommendation has been implemented.

**Recommendation 5:** Remove incorrect language from the Notice of Proposed Escape Assessment.

We concur and are in contact with our software vendor to make the necessary changes.

**Recommendation 6:** Apply the section 482 penalty only when the property owner fails to timely file a Board-approved COS as requested by the assessor.

This recommendation has been implemented.

**Recommendation 7:** Discontinue the exemption of low-value CLCA properties.

We concur and are in contact with our software vendor to make the necessary changes.

**Recommendation 8:** Improve the taxable possessory interest program.

We agree and will make the suggested changes as time and resources allow.

**Recommendation 9:** Assess mining property according to the provisions of Rule 469.

We concur and will implement this recommendation.

**Recommendation 10:** Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

We concur and will implement this recommendation as resources permit.

**Recommendation 11:** Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.

We agree and will implement this recommendation.

**Recommendation 12:** Periodically review assessments of manufactured homes for declines in value.

We agree and will implement this recommendation.

**Recommendation 13:** Improve the valuation of vessel assessments.

We concur and will implement these suggestions.

**Recommendation 14:** Require vessel owners to file annual vessel property statements for all boats costing \$100,000 or more.

This recommendation has been implemented.